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RUEHRG/AMCONSUL RECIFE 9762
RUEHRI/AMCONSUL RIO DE JANEIRO 8018
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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 000928

SIPDIS

STATE FOR WHA/BSC, NEA AND NP

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TAGS: [MNUC](#) [PREL](#) [BR](#)

SUBJECT: BRAZIL: NO AGREEMENT WITH IRANIAN EXPORT
DEVELOPMENT BANK...YET

REF: A. BRASILIA 847

[1](#)B. BRASILIA 477

Classified By: DCM Lisa Kubiske. Reason: 1.4(d)

[1](#)1. (C) Summary: Brazil,s Ministry of External Relations (Itamaraty) was quick to dismiss claims made in Istoe magazine titled "Secret Agreement between Brazil and Iran," which reported on a memorandum of agreement between the Brazilian Ministry of External Relations (MRE) and Iran aimed at promoting economic cooperation and trade (ref a). According to Itamaraty contacts, no agreement has been signed, and no mechanism to facilitate trade between the two countries -- in particular, to help Iran obtain letters of credit -- has been established. Itamaraty does support creating such a mechanism, but still needs buy-in from other entities within the Brazilian government. According to Itamaraty contacts, if such a mechanism were to be established, Brazil would carefully consider each trade financing opportunity on a case-by-case basis and maintain tight controls to avoid trading with any Iranian entities banned by the UN, though not those banned unilaterally by the United States. Since Itamaraty supports such an agreement, it will likely try to garner support within the GOB in order to present it as a deliverable in a future presidential meeting. End summary.

No Agreement, No Secrets

[1](#)2. (SBU) Following the June 30 publication of the Istoe article, poloff met with First Secretary Carlos Leopoldo Goncalves de Oliveira (Iran desk officer in Itamaraty,s Middle East Division II) and Counselor Rodrigo de Azeredo Santos, head of the Division of Trade Promotion Programs. According to Azeredo, there is no accord, much less a "secret accord" as the Istoe article alleged. The text shown on the

Istoe article represents an "ata" (or official record; minutes) of conversations held in March between Iranian and Brazilian trade authorities with the purpose of increasing trade between the two, a long standing goal of both governments (ref b). The "ata" registered the preliminary contacts that took place between the two sides to learn about each country,s respective export financing systems and noted an agreement to discuss the possibility of establishing mechanisms to facilitate trade.

13. (SBU) Furthermore, noted Azeredo, there was nothing secretive about the meetings. They involved various government entities that participate in the Brazilian Committee for the Financing of Exports (COFIG) and other private entities and information about the meetings were disseminated to the press in various articles in Valor Economico and Estado de Sao Paulo.

But Itamaraty Wants One

14. (SBU) The Brazilian Government is considering establishing a mechanism to assist in the financing of exports to Brazil, which have been hurt by the economic crisis, but it has not done so yet, noted Azeredo. The government entities that play a role in COFIG have to weigh in as well, and that has not happened. Azeredo openly stated that Itamaraty, which is part of COGIF, supports establishing such a mechanism and added that Brazil has been open and forthcoming about its

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views that Iran represents an important market for Brazilian products. With 71 million people, average GDP growth of 5.5 percent in the last few years, and international reserves of over US\$80 million, Iran represents the second largest economy in the Middle East, after Saudi Arabia, Azeredo observed. He also defended Brazilian trade with Iran, noting that Brazilian exports to Iran are small compared to those of China (USD 9.3 billion), Germany (USD 6.3 bn), Italy (USD 3.5 bn), France (USD 3 bn) or India (USD 2.6 bn).

15. (SBU) Azeredo continued that Iran has been the largest trading partner for Brazil in the Middle East and there is great potential to expand trade further. Commodities currently dominate Brazilian exports to Iran, but Brazil and Iran are interested in Brazilian machinery for the oil and gas industry, medical equipment, and engineering and construction services. Although trade in commodities has not been greatly affected by the credit crunch, trade in value-added products has been, he noted. From 2007 to 2008, exports from Brazil to Iran fell from US\$1.8 billion to US\$1.1 billion.

UN Ban OK, US Ban Not OK

16. (SBU) The text of UNSCRs call for "vigilance in establishing new mechanisms to finance exports to Iran", observed Azeredo. Therefore, he noted, any export financing mechanism, if established by Brazil, would carefully consider each potential financing opportunity on a case by case basis, and would study in each instance whether any of the entities in the venture are listed under the UN sanctions in compliance with the UN,s call for vigilance. Azeredo explained, in reference to the article,s claims that "accord" deals with re-exportation in order to the "ata" regarding to re-exportation comes from the desire of Brazilian businessmen to export to Central Asian markets through Iranian channels and from Iranian businesses interested in exporting to Mercosul countries through Brazil.

17. (SBU) Both Azeredo and de Oliveira stated that Brazil will fully comply with UNSC resolutions regarding Iran and will

not do business with any entity listed under those resolutions. According to them, these UNSCRs have been issued in Brazil as presidential decrees (Decree 6.448 7 May 2008) and are now the law of the land in Brazil. They took pains to note, however, that Brazil does not abide by any additional sanctions imposed unilaterally by other countries.

Comment: Istoe was right even while being inaccurate

18. (C) Brazil,s response to the Istoe article is their standard boilerplate: Brazil wants to expand business with Iran, it will abide fully by any UN resolutions, but not any unilateral ones. Brazil uses the behavior of other countries towards Iran to deflect any criticism of its actions. Unlike France or Germany, however, the GOB has no intention of balancing its intensifying relations with public criticism of Iran. Even in the midst of post-election repression in Iran, the best Itamaraty managed was mild expression of support for the recount. Despite Itamaraty officials, quick denials and dismissal of the Istoe article, Itamaraty is really only taking issue with the implication of nefarious and

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underhanded dealing with Iran. While there is no "secret accord", the underlying idea of the accord as reported in the article -- to establish a mechanism to facilitate trade between the two countries due to Iran,s inability to gain letters of credit -- is accurate, and openly supported by Itamaraty. Furthermore, Itamaraty officials quite bluntly tell us that they are perfectly willing to work with an entity facing U.S. sanctions, or those of any other individual country, including the Iranian Export Development Bank. Since Itamaraty supports such an accord, and both FM Amorim and President Lula have reiterated interest in reciprocal presidential visits (Folha de Sao Paulo, on 21 July, reported that, according to the Iranian Ambassador to Brazil, Ahmadinejad's first international trip after the beginning of the Iranian President' s second term would be to Brazil) it is probably only a matter of time before such an agreement appears as a visit deliverable.

SOBEL